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A Promising 1977 Outlook

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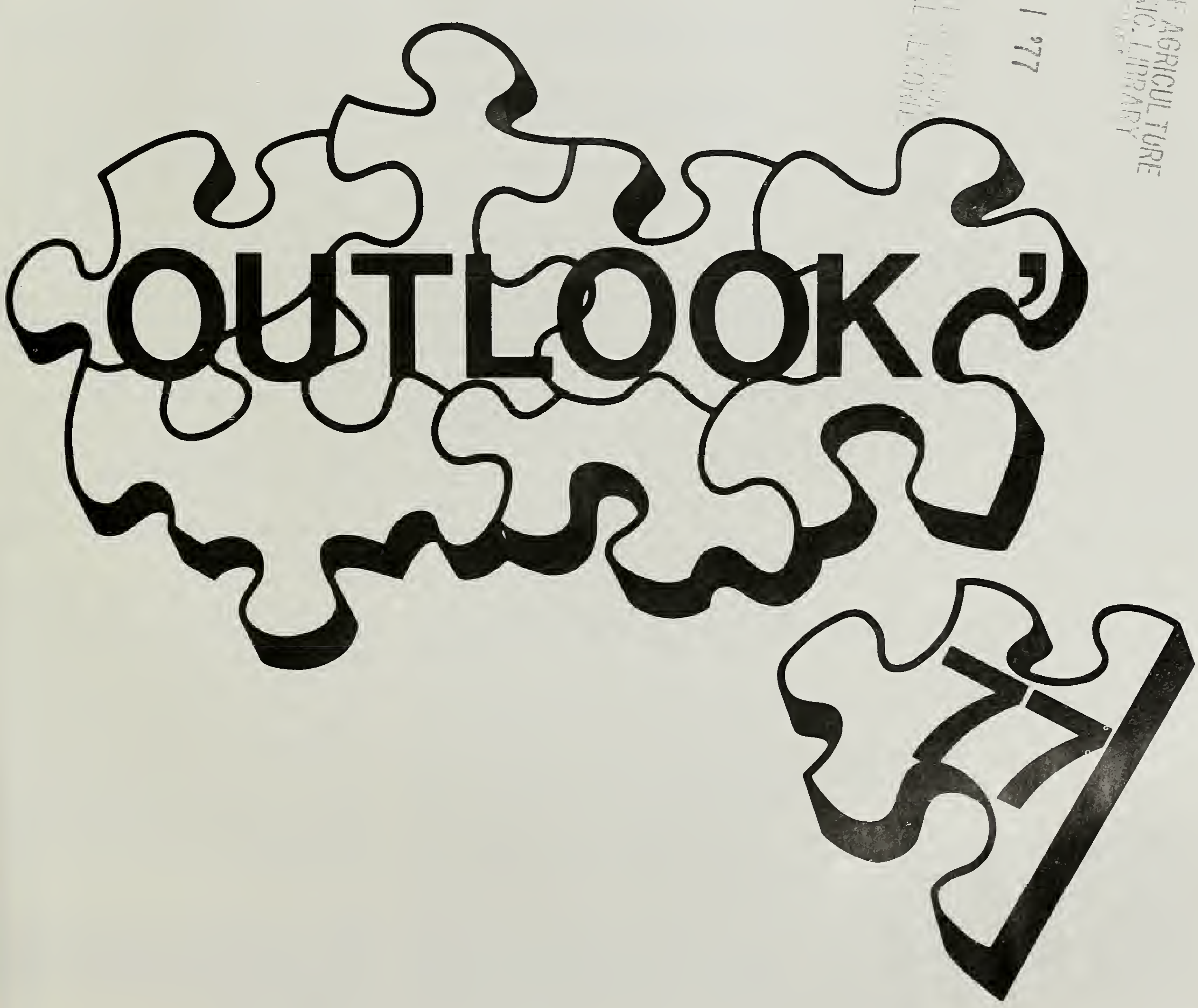

Outlook

This month's column departs from our usual format of calling attention to the short-range outlook for American agriculture because we trust this special issue amply covers the subject.

We'd like to address the subject of agricultural policy for a change, one which the 95th Congress convening this month will also be addressing as the Agriculture and Consumer Protection Act of 1973 expires.

By the end of the 1977 crop year, lawmakers will have to decide whether to extend, modify, or totally revamp the 1973 Act, applying to feed grains, wheat, cotton, wool, and dairy products. The Rice Production Act of 1975 will also expire, along with the Agricultural Trade and Development Assistance Act of 1954—better known as Public Law 480. The death knell will also sound for the funding of the Food Stamp Act of 1964, unless the Congress chooses to amend or extend it.

As aptly summed up by one ERS economist at the November National Agricultural Outlook Conference:

"There is more uncertainty about future directions of the agricultural economy now than perhaps at any time in the past quarter century . . . Is agriculture again headed for a period similar to the fifties and sixties? Have conditions really changed as much as some people claim, with agriculture in a fundamentally new economic environment domestically, and in world markets? Or, are we to experience some of both extremes every couple of years?

"The underlying issue in agricultural policy," he says, "will likely pit the 'market orientation' proponents against those favoring expanded Government intervention. The issue runs deep, involving philosophical divergences of considerable magnitude . . ."

First the matter of target prices, loan rates, and allotments. Question: Are supports a device to be used only to protect producers from price declines, or are they a device to guarantee a fair return for each producer?

Another key issue has to do with reserve grain stocks . . . whether they should be held by governments or producers, how to specify the purchase and sales price, and how to determine their size and composition.

Equally perplexing is domestic food aid policy, programs of which comprise about two-thirds of USDA's budget, mainly food stamps and the school lunch program.

"Most everyone agrees with the lofty objective of providing assistance to 'those who really need it'," the ERS economist said at the Outlook Conference. "But deciding upon the criteria for determining who is really in need is the big problem."

Finally, there's the foreign food aid policy (specifically P.L. 480), support for which has waned somewhat, in light of the strong demand for commercial sales of U.S. farm products, smaller stocks, and higher prices. Policy questions that need to be resolved: the extent of our aid programs in the future; how to get other nations to share with us the cost of food aid; and what the ultimate objectives of food aid should be.

[Based on "Agricultural and Food Policy Beyond the Agriculture and Consumer Protection Act of 1973," by J. B. Penn, Commodity Economics Division.]

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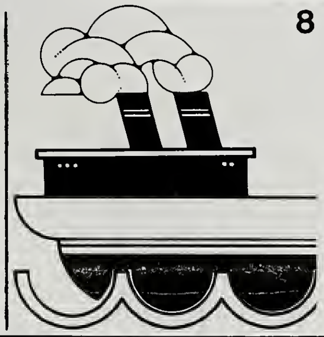

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A Promising 1977 Outlook

What lies ahead for American agriculture in 1977?

While the answer to this question is fraught with all the uncertainties of even the short-term future, it is vitally important to every American.

The prosperity of agriculture is intricately interwoven with the welfare of the Nation.

Consumers are obviously dependent on farmers for a sufficient supply of food and fiber, at a price they can afford. The farmer depends on the consumer to buy his goods at a price that will provide a reasonable profit. Much of the Nation's economy is directly or indirectly based on agriculture.

Outlook conference. With such critical concerns in mind, agricultural experts met in Washington, D.C., in November at ERS's National Agricultural Outlook Conference to discuss the portents for 1977.

The overall verdict: 1977 should be a healthy year for American agriculture.

The question has many implied parts, perhaps the foremost being: Will there be ample food and fiber for the Nation?

A resounding "yes" is the answer. Large supplies of most commodities seem to be in store, with a record production of livestock probable.

While the total harvest for 1977 may be large, economists expect some shifts within the mix of crops as farmers respond to economic and weather conditions.

Changing mix. Cotton and soybean crops may expand to meet demand. An additional 4 or 5 million acres of soybeans may be planted above the 50-million-acre mark in 1976. The soybean and cotton expansion could cut down corn and feed grain plantings. Although little change is expected in wheat acreage, a continuation of low prices may bring some cutback in the Corn Belt and spring wheat areas.

Overall, a small increase in total acreage planted is anticipated. But experts quickly caution that even the most informed and carefully devised predictions are vulnerable to the same age-old nemeses of farmers: weather conditions and disease or insect infestations of crops.

Estimates of crop size must be based, for now, on acres to be planted. Weather conditions at the time of planting and during critical crop stages from seed through harvest greatly affect yield, as does the presence or absence of disease and insects.

Inputs factor. Another important factor is the farmer's ability to provide fertilizer, water, and pest control—determined largely by economics.

With such great variables in mind, economists can only add "poor yield" assumptions to project a minimal crop should nature prove uncooperative, and a "good yield" projection based on ideal conditions. The actual harvest should fall between these extremes.

For example, the 1976 feed grain crop yielded more than 200 million short tons. In 1977, the "poor yield" projection is 175 million tons, while the "good yield" estimate is around 230 million tons.

Livestock. Livestock production reacts sharply to economic conditions. The new year begins after strong production gains in the last half of 1976, led by a large increase in pork, and followed by slower advances in beef, poultry, and milk output. Such heavy increases—output during the last half of 1976 was up 7 percent over the same period in 1975—depress prices.

With smaller returns, cattle feeders placed fewer cattle on feed last summer, thus setting the stage for a drop in beef production in 1977, and a strengthening of prices.

Meanwhile, the sharp upturn in hog production should continue through mid-1977 at about a fifth higher than year-earlier levels.

Broiler and milk output may also gain in early 1977, subject to downward price pressure if the expected price-cost squeeze reduces producer returns.

Pork and poultry gains. Overall, gains in pork and poultry during the first half of 1977 could match the cutback in beef production. But, in the second half of the year, tonnage of meat and poultry could drop about 3 percent less than year-earlier levels. For the entire year, livestock production should total close to 1976 output.

From this overview of crop and livestock production forecasts, it becomes obvious that the supply of farm commodities greatly influences prices and returns to the farmer.

Quite naturally, the farmer must expect a reasonable profit for his labors, and, like any other good businessman, he tailors his production so that he can continue his business.

Production reduction. The cattle feeder is a good example. If production expands to the point that prices fall too low to support the continuation of such a high level of output, he cuts his expenses by reducing the number of cattle on feed. The effect of this reduction is felt the following year. Producers of other commodities respond similarly.

Thus, another part of the 1977 agricultural outlook question is: How will the farmer fare this year?

Experts suggest that farm income will be down during the first half of the year, then pick up during the second half to reach a level above that during the second half of 1976. For the entire year, farm income should be about the same as in 1976 —a reasonably good year.

Farm prices down. Currently, farm prices and incomes are running below year-earlier levels. The downtrend in the last half of 1976 pulled that year's total down to about the same as in 1975, with a small plus or minus still to be determined by the disposition of final inventories.

Even with second-half 1976 tapering off, the 1975/76 crop year pro-

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vided farmers with a record gross income flow. Yet, rising production costs cut sharply into this income so that the net income was only the third largest on record.

In early 1977, prices paid to farmers should be about the same as in 1976, until the coming crops begin to influence the markets. At year's end, experts say that modest gains in gross farm income may occur, especially in livestock operations.

Stable income. Net farm income—money earned after expenses are paid—in 1977 should remain about the same as in 1976, with modest rises of gross income and a slower rise in production costs. Projections, however, are highly tentative, until results of the 1977 crops are in.

With the supply—and the supplier—side of the agricultural picture thus in mind, the other side is the demand for the products.

While much of the demand is natural enough—people have to eat and be clothed—consumers' buying power is a major factor. The large crops of last year would have gluted the market, had not the consumers taken up the slack by increasing per capita food consumption by 2 to 3 percent; and if the export market had faltered, instead of booming to consume much excess.

Thus, the economic health of the rest of the Nation is important to farmers.

Better buying power. Economic recovery from the recent severe recession should continue its upward turn in 1977. In turn, American consumers should be in a better position to buy farm products as the consumers' after-tax income continues to climb.

From January to June, the GNP is expected to increase at a rate of 11 percent above the GNP rate of increase during the same period in 1976. The real output should edge up 5 percent; consumer income after taxes may rise 10 percent; real income per capita could gain 3 percent; and consumer expenditures may rise around 10 percent—9 percent for food and beverages, and 4 to 5 percent for clothing and shoes.

During the second half of 1977, the GNP rate of increase, real output, and consumer income after taxes should continue to gain over the year-earlier period, with further increases in real income per capita, and in consumer expenditures.

Uncertain picture. While the picture is still uncertain, current prospects add up to a composite of relatively good news for the American economy.

Meanwhile, the foreign market for U.S. agricultural products should remain strong in 1977, despite some shifts in the export mix.

First, on the bleaker side, U.S. grain farmers face stiffer competition for a share of the world market because of a good Soviet grain crop.

World production of grains in 1976/77 may be up 6 to 8 percent over 1975/76 levels, led by about a 15-percent jump in world wheat output.

The Soviets, major U.S. customers in recent years, may halve their American wheat purchases from the 1976 level.

Yet, the European drought and South Asian monsoon crippled wheat production elsewhere, so that, outside the Soviet Union, world production actually dropped slightly. But with the larger Soviet crop, a decline of 15 to 20 million metric tons in the world grain market trade is anticipated.

The good news. On the bright side, improving feed/livestock price ratios, worldwide economic recovery, and the need for many countries to rebuild carryover stocks could spur exports.

Overall, the total volume of agricultural exports will probably drop from the 1975/76 record level, but tight supplies and higher prices for soybeans, tobacco, fibers, and *some* other crops could boost the value of exports to at least match the record level of recent years.

To move from the intricacies of agricultural economics to more basic concerns for consumers, let's take a look at the 1977 retail price outlook.

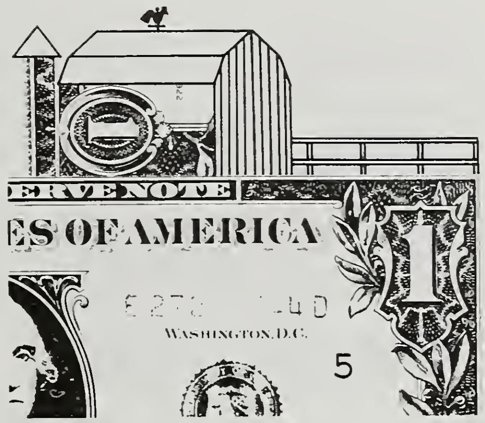
Into spring, relatively stable retail prices should continue. Then, if farm prices strengthen as expected, and if livestock production tapers, pressure could build to push prices up slightly.

However, retail price hikes may be delayed because of the relatively wide farm-to-retail margins, which will likely narrow somewhat if prices strengthen at the farm level.

All in all, the outlook for 1977 appears to be reasonably good—for both farmer and consumer.

[Based on the speech, "Agricultural Outlook for 1977," by Rex F. Daly, ERS Outlook and Situation Officer, at the National Agricultural Outlook Conference, Washington, D.C., November 15, 1976.]

Focus on Farm Finances



How prosperous are American farmers? Well, let's look at some of the vital signs—farm income, the cost of farm inputs, real estate values, and the loan situation.

Income pulse. Income is a good one to start with. Last year was a fairly good one for most farmers, as they probably netted around the same as in 1975. There were some exceptions though—notably livestock producers and farmers in drought-stricken areas. For them, 1976 was not a very good year.

Those faring best last year were dairy, poultry (except turkeys), cotton, and tobacco producers. Wheat growers' incomes, on the other hand, were dented by growing supplies and sinking prices.

Livestock booster. Overall, 1977 could see modest gains in gross farm income, mainly due to strengthening livestock prices. That is, if livestock production eases as expected. As far as net income goes, the 1977 figure should hold close to the national average of recent years—around $23-25 billion.

Although the costs of farming continued to rise last year, the gain in farm receipts about compensated.

However, farm prices and receipts during the year were hurt by the large sell-off of cattle herds. The livestock situation looks better for 1977, though, so cattle prices and receipts should improve.

Rising values. Another measure of the farm sector's health is that the values of farm assets have been steadily climbing, especially since 1971. The major asset—farmland—has actually outpaced other farm price increases.

ERS says farm real estate values probably rose 8 to 10 percent for 1976, and will continue at about a 7-percent rate for this year.

Five-year perspective. To get a perspective on advances in farm real estate values for the different farming areas, let's look at the past 5 years' performance.

Since 1971, farmland values have shot up over 140 percent in the five main corn-producing States, and nearly 110 percent in the leading wheat States. In contrast, land values went up only a little over 90 percent in the major cattle-raising States, and around 60 percent in the cotton-growing ones.

The boost in farmland values is related to the increased interest in expanding the size of individual farms. Between March 1975 and March 1976, 60 percent of all rural tracts changing hands were for add-ons to existing farms.

Part-time fever. Another force affecting market values is the increasing interest in part-time farming. This is especially true in the Northeast and Appalachian States where around one-fifth of all rural tracts are bought for "farming on the side."

Although the higher market values of land and other fixed assets can be detrimental to would-be farmers or farmers planning to expand their operations, they can also be a plus. Already established farmers can find the higher values make good collateral to obtain loans for farm improvements or other purposes. In addition, the uptrend in farmland values has encouraged lenders to be more generous with their funds.

Debt ratio stable. Therefore, even though farm incomes have been relatively high in recent years, the farm debt-to-asset ratio hasn't changed much—hovering around 16 percent. Rather than paring down debts, many farmers have opted to take advantage of the favorable loan situation.

The most striking change during 1976 in farm real estate lending was the greater role of life insurance companies. These companies probably increased such loan holdings by about 16 percent during the year.

Changing lending scene. And this change had its ramifications. For one thing, the steadily rising share of the farm real estate lending business by the Federal land banks was slowed. For another, loans funded by individual sellers of farmland—under land contract or mortgage—apparently rose less rapidly than those of most other lenders.

1977 outlook. A boon, of course, to farm financing in general was a slight easing of interest rates last year. However, little further change is expected this year.

For 1977, loan demands should remain strong and lenders well supplied with money. But lenders believe that risks of farm lending are increasing; hence, they stress the necessity of investment counseling.

[Based on the speech, "The Farm Financial Outlook for 1977," by Philip T. Allen, National Economic Analysis Division, at the National Agricultural Outlook Conference, Washington, D.C., November 15, 1976.]

Foreign Trade Holds Strong

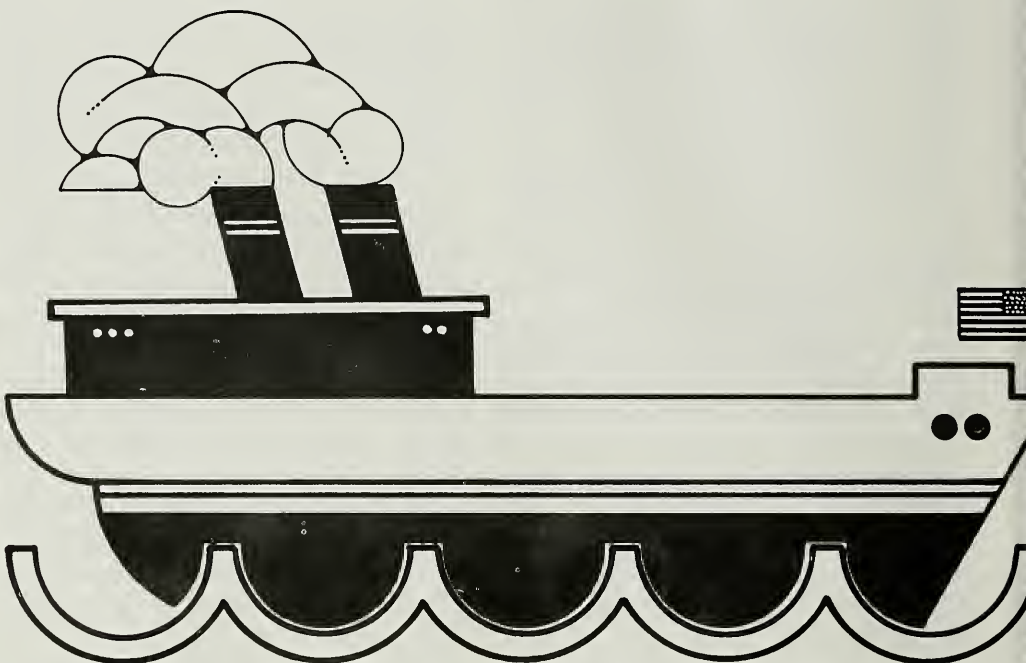
It's too soon to tell whether U.S. farm exports will splinter all records in the fiscal year that began October 1, although most signs indicate a sales tally at least as great as in fiscal 1976—of itself a record.

Based on prospects for our farm supplies this year and agricultural conditions around the world, American farmers can expect to ship around $23 billion worth of goods in fiscal 1977. Total volume of shipments will probably fall short of last year's, but higher price tags for soybeans, oilseed products, and cotton will more than make up the difference.

The average American should be pleased about this prospect. Remember that agriculture is this Nation's biggest industry, employing nearly 17 million persons who either produce the goods on the farm or who are involved in getting the food and fiber to retail stores in the form that consumers demand.

Exports spur economy. Every dollar generated by agricultural exports generates $2.20 of spending in our economy, and this should please businessmen, too.

If in fact, the value of U.S. farm exports does manage to rise any in fiscal 1977, this would mean the continuation of a trend that began in the late 1960's. At this early stage, ERS economists are not placing bets on the outcome. Seemingly minor changes in world developments could throw the forecast way out of line—changes in exchange rates, for example, or sluggish economic growth. Also, the impacts of the OPEC oil-pricing decisions are still being debated.



The current forecast is pinned on what is already on paper. Economists know that—

- In 1976/77, the world harvested a record grain crop. Major countries competing with the U.S. farmers for grain and protein feed exports had a lot to spare.

- Recovery of foreign economies moved at a slow pace, yet demand for livestock feeds was lively.

- Europe—a key market for us—suffered serious drought last summer, so its supplies of grains and other feeds shrank considerably.

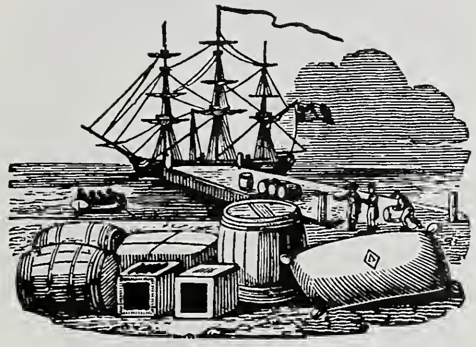
- The Soviet Union made an excellent recovery in grain production in 1976.

Around the world. Before getting to the export forecasts for specific U.S. commodities, here is a quick rundown of world economic conditions to help explain the expected ups and downs in our farm shipments this year.

Real growth in the gross national products of member countries of the Organization for Economic Cooperation and Development (OECD) may be up 4½ percent in first half 1977 versus last half 1976 when the gain averaged 3½ percent.

The economies of the U.S., West Germany, and Japan, although improving less than had been expected earlier, show strong demand for imports. Agricultural imports by the U.S. in fiscal 1977 are expected to mount approximately 15 percent from last year's $10.5 billion, mainly due to price hikes for coffee, cocoa, and rubber.

Trade surplus might tighten. So, if the current forecast for U.S. farm



U.S. Farm Exports 1977

exports and imports is near the mark, our agricultural trade surplus will narrow a bit. It might total $11 billion (exports less imports), compared with $12.3 billion in October 1975-September 1976.

Other developed countries aren't doing as well on the economic scene, and they might not be bidding strongly for our agricultural wares in fiscal 1977—especially the United Kingdom, Italy, and France. To offset high inflation, and falling exchange rates, these nations have taken steps that ultimately should lead to reduced growth in real disposable income and in imports. And these industrialized nations and others will be affected by the recent announcement of further increases in oil prices, meaning they'll have less to spend for agricultural imports.

On the other hand, several developing countries will become even better markets for the American farmer. The economies of Hong Kong, Taiwan, and South Korea have all expanded an estimated 10 to 12 percent in 1976.

Developing countries doing better. Financially, the developing countries met fewer problems in 1976 than the year before. Deficits were down, and the flow of financial aid from other countries held up. However, oil price rises and the need to continue borrowing may constrain imports.

As usual, the outlook for U.S. farm exports varies, depending on the commodity. Export values are expected to swell for most commodity groups, with the major exception of the grain and feed category.

In fiscal 1976 (October-September year), the value of U.S. grain and feed exports was around $12.2 billion. Fiscal 1977 will see a drop of a couple of billion dollars due to record wheat production worldwide and the resulting price decline. Prices for feed grains and rice are also expected to remain soft.

The outlook for oilseeds and products, however, has improved. Total export value should be up a billion or so from 1975/76's $4.7 billion. Higher prices this year stem mainly from sharply reduced U.S. soybean production, while world meal and oil consumption continue their upward trend.

Also, the Soviet Union had another below-average sunflowerseed crop and it turned to U.S. soybeans to fill in the gap.

U.S. exports of livestock, dairy, and poultry are expected to hold near last year's $2.2 billion. Increased values for shipments of hides and skins and beef products will about offset decreases for animal fats and grease, pork, and breeding animals.

Bad year for fruit output. The sales total for fruits, nuts, and vegetables will head higher, but only slightly from 1975/76's $1.46 billion. It's been a bad year for production of dried fruits in California. Much larger exports of fresh and processed potatoes should more than make up the difference. Less impressive export gains are anticipated for fresh citrus, canned fruits, and tree nuts.

U.S. cotton exports, last year valued at $910 million, will stage a strong recovery, possibly reaching $1.6 billion in fiscal 1977. Demand for our cotton is being boosted by continued expansion of textile activity abroad, competitive U.S. prices, and smaller supplies of competing exporters.

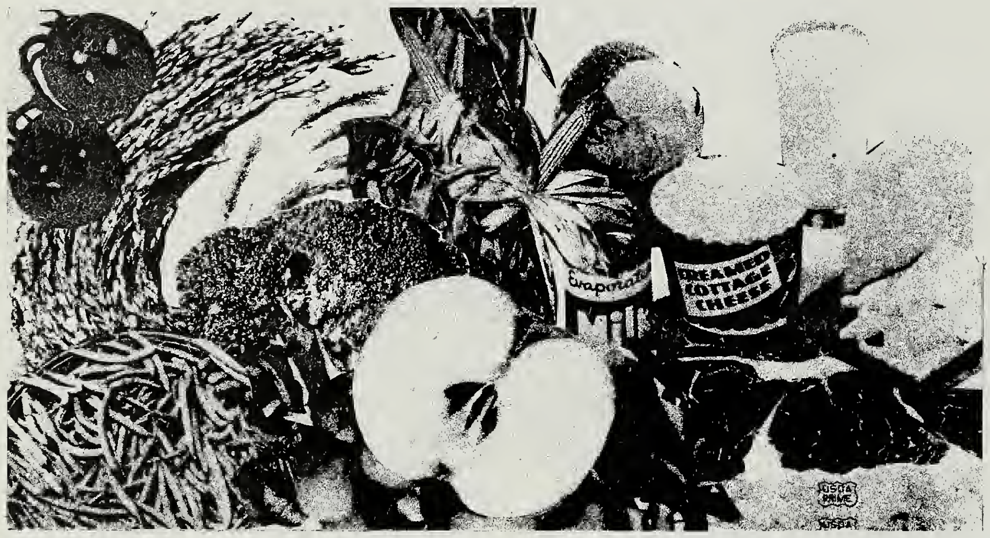
The value of U.S. tobacco shipments could increase a shade from last year's $928 million, assuming Rhodesia's export embargo remains in effect.

Sugar and tropical products should also score slight gains in the export column. Last year's sales came to $385 million. Sugar exports may be off, but the dip may be cancelled by the higher value of coffee exports and larger shipments of beverage-based sirups and flavoring extracts.

[Based on *Outlook for U.S. Agricultural Exports*, Nov. 15, 1976, by the Foreign Demand and Competition Division and the Foreign Agricultural Service.]

Commodities In Brief

What's happening on the commodities' scene? ERS economists examined the future of some of the major U.S. commodities at the National Agricultural Outlook Conference. Here are some highlights.



WHEAT

The U.S. is virtually bursting its storage bins with wheat—this year's near-record crop plus a substantially larger carryover last June spell the largest wheat supply since the early 1960's. Thus, instant de facto grain reserve.

This glut, coupled with depressed prices, could mean a revival in wheat feeding. The continued strength in food use—especially wheat-based convenience foods—seems to be explained largely by the improved economy.

Although wheat prices hit a 3-year low this fall—less than $2.50 a bushel compared with over $3.40 a bushel in June—ERS economists feel that prices may have bottomed out and could follow the more normal pattern of seasonal strength through the remainder of 1976/77.

Price factors. Factors that will influence price patterns include:

- Farmers' storage and market strategies and the influence of the increased loan rate on these strategies.
- The pattern of foreign purchases—foreign buyers appear to be stringing out their purchases more evenly.
- A relatively strong feed grain market.
- The final outcomes of the wheat harvests in Argentina and Australia.
- The size and condition of winter wheat plantings in the U.S., Europe, and the U.S.S.R.
- The size of the Asian rice crop—shortfalls in rice production are often compensated for by wheat imports.

Farm prices. ERS predicts that U.S. farm prices for wheat may average between $2.60 and $3.20 a bushel this season, compared with slightly over $3.50 a bushel last year.

Even though U.S. wheat exports for 1976/77 are forecasted to be just a little below last season's (950-1,150 million bushels compared to 1,173 million), there seems little hope that foreign demand will be enough to bolster the depressed prices.

Larger grain harvests in the Soviet Union, India, Pakistan, North Africa, and Brazil suggest an easing of world import demand. In addition, our increased supply, a record Canadian crop, and a prospective bumper crop in Argentina indicate stiffer competition among exporters.

[Based on a speech by James J. Naive, Commodity Economics Division.]

RICE

Consumers can expect to pay less for rice in the coming months, thanks to a glutted marketplace and weakened farm prices.

Lower retail prices should boost food use of rice in the U.S. about 6 percent above the 27.8 million cwt. of last season. Brewers' use should continue to increase, since prices of brewers' rice are well below those of corn grits, the major competing ingredient in the beer industry.

In addition to an increase in domestic consumption, U.S. exports are expected to be about a tenth larger than last season's, although short of the record set in 1974/75. Even with greater domestic use and expanded exports, there will still be some further buildup in carryover at the end of the 1976/77 marketing year, suggesting that farm prices could continue under pressure and that the Commodity Credit Corporation (CCC) will continue to hold large inventories of rice.

Rice price. This season's average price for rice could be well below the

$8.25 per cwt. target price set by the Rice Production Act of 1975 and the $7.93 per cwt. estimated by USDA for 1975/76.

If so, under the Act, deficiency payments will be made to allotment holders on allotment production only at a rate equal to the difference between the target price and the national average price received by farmers for the first 5 months of the marketing year (August-December), unless the national average price falls below the loan rate ($6.19). In that case, it would be the difference between the target price and the loan rate.

To plant or not to plant. Rice growers will be carefully weighing market conditions and cropping alternatives in making planting decisions for 1977. Strong prices for oilseed crops and cotton suggest that rice plantings may slip moderately from this year's 2.5 million acres.

Growers will also keep in mind the provisions for the last year of the 2-year Rice Act:

- A national allotment of 1.8 million acres, the same as in 1976.
- A national average loan rate that will be somewhat higher than this season's $6.19 per cwt. (only allotment production is eligible for the loan).
- A target price moderately above this year's $8.25 per cwt.

[Based on a speech by James J. Naive, Commodity Economics Division.]

LIVESTOCK

Americans ate more red meat in 1976, because of increased livestock slaughter. In fact, per capita consumption ran about 193 pounds for the year—up 12 pounds from 1975.

For 1977, the picture looks about the same—a per capita consumption of roughly 190 pounds will be made up of 120-122 pounds of beef, 3 pounds of veal, 64 pounds of pork, and less than 2 pounds of lamb.

Consumers paid around $1.39 a pound for beef last year; $1.36 for pork. Beef prices will average about 10 cents a pound higher in 1977, while pork prices may average 5 cents or more lower. Retail pork prices will likely be lowest this winter, while beef prices will peak seasonally in the summer months.

Farm prices. Livestock prices will follow the retail market, but price spreads will do well to hold at year-earlier levels. However, some seasonal variations in the farm-retail spreads and further price movements seem likely as the slaughter mix changes due to marketing patterns and grade composition.

For the year, ERS predicts Choice slaughter steers to average $43-$45 per cwt. (at Omaha)—up from 1976's probable $39 average. Barrows and gilts (7 markets) may run $35-$37, substantially below their probable 1976 average of $43.

Steer prices. Steer prices will likely show some strength in the first quarter as the beef supply—especially fed beef—is down from the fall slaughter. The winter quarter will probably average $41-$43 per cwt. with a moderate advance in the spring as nonfed supplies decline seasonally.

These slaughter prices should be reflected in the feeder market. However, feeding costs will keep the spreads narrow. Cattle feeders should cover feed and feeder costs in 1977, and many will cover all costs, especially after the winter quarter.

[Based on a speech by Richard Crom, Commodity Economics Division.]

DAIRY

A large volume of milk is flowing from the Nation's dairy farms now, and consumers can expect even more as 1977 progresses.

The outlook is for production to swell about 1-2 percent over 1976 levels for the year overall. It should rise rapidly in the first part of the year, and slacken later.

This follows a year featuring the first real change in output in 3 years, and the sharpest year-to-year jump since 1953. Last year, cows produced about 120 billion pounds of milk, up nearly 4 percent from 1975. Sales followed suit, perhaps reaching record levels.

Prices beat supports. As a result, milk prices were well above the Federal support price for most of the year and averaged about $1 a hundredweight more in 1976 than in 1975. Last year's milk prices averaged about $9.70 a hundredweight. The new support price was set at $8.26 on October 1.

Still, the market now is not as strong as it was much of last year, and surpluses could develop. If this happens, prices could fall off from the 1976 highs, even if the consumer demand remains strong.

Booming cheese. The demand was felt most strongly in cheese sales.

They boomed through September, with commercial cheese use up 11 percent over year-earlier levels. Other cheese sales posted similar gains, even though retail cheese prices were much higher than in previous years. Altogether, dairy product sales were up about 2 percent.

Per capita milk product consumption could spurt in 1977. Last year, per capita use increased only slightly above the 546 pounds of 1975. There were larger sales of milk per person last year, but that's mostly because the Government donated less through public food distribution outlets, such as school lunch programs.

[Based on a speech by Charles N. Shaw, Commodity Economics Division.]

CITRUS

Prospects in November for a bumper citrus crop and a disappointing noncitrus harvest give the 1977 fruit outlook a good news-bad news motif.

Citrus prices will be down in the first part of 1977, while noncitrus fruits will be drawing higher prices.

In both cases, the price situation will reflect the supply of fruit. Citrus growers will be coming off a bumper year, as of the November 1 forecast, with production hitting an all-time high, an estimated 16.8 million tons —almost 15 percent above 1975 output. Both oranges and grapefruit production hit record levels.

Noncitrus problems. Noncitrus fruits are coming off a bad year largely due to weather problems and current stocks smaller than a year earlier.

- *Apples.* The Eastern apple crop was down an estimated 20 percent, the Central State production was down 28 percent, and the West had a 2-percent reduction.
- *Grapes.* The October 1 predictions for the 1976 grape crop put it about 17 percent below year-earlier levels. The biggest drop was in Michigan, where production was down an estimated 78 percent. In California —where 90 percent of the U.S. grape crop is normally grown—production was down 17 percent. The small increases in production in New York, Pennsylvania, and Washington State were not enough to balance the losses.
- *Pears.* Production is up a moderate 2 percent over 1975. While Bartlett pear production in Washington State and Oregon was down, the large California crop more than made up the difference.

Eating more fruit. There are some bright spots on the fruit growers' horizons. Per capita fruit consumption—thus demand—is up right now, and should continue upward, if the national economy improves.

[Based on a speech by Jules V. Powell, Commodity Economics Division.]

VEGETABLES

Consumers can expect to pay only slightly higher prices for processed vegetables during the 1976/77 marketing year. Large carryover stocks will keep supplies of 10 important vegetables adequate—enough to cover expected demand.

(Concentrated tomato products are not included in these estimates, although canned tomatoes and tomato juice are.)

Carryover stocks of frozen vegetables will likely be lower at the end of 1976/77 than either of the two previous marketing seasons. Nevertheless, total supplies will be large enough to limit price advances for all but possibly two or three items. (Supplies of snap beans, lima beans, broccoli, and cauliflower are relatively light. However, the leading frozen vegetables—potatoes, sweet corn, and peas—are in abundant supply.)

Larger acreages. Processed vegetable acreages are expected to be somewhat larger this year, due to the severely reduced tonnages in 1976. Contract prices to growers are apt to be equal or slightly higher than a year earlier.

What about the potato picture? The record large fall crop has pushed prices downward, especially in the Pacific Northwest. The need for potatoes in Europe seems to be keeping Eastern round potato prices on a more even keel, though still well below a year earlier.

With relaxed import restrictions in several European countries, there's a chance that a substantial part of the excess fall output will move into export markets in the next 4 or 5 months as fresh potatoes or potato products. Usually only 1 or 2 percent of the U.S. crop is exported, with much of it going to Canada as table or chip stock. In fact, export trade never had any real impact on domestic trade prices until the 1975/76 season, when the European drought stimulated our first substantial sales.

[Based on a speech by Charles W. Porter, Commodity Economics Division.]

Food News In Review

A 3-percent inflation rate may not seem anything to smile about, particularly if you're talking about food prices. But then, some things are relative. Compared with an 8.5-percent annual gain, it could be something to outright grin about.

Actually, last year's inflation rate of 3 percent was not only below 1975's rate, it was the smallest rise since 1971. And retail food prices advanced at only half the pace of the Consumer Price Index, thus holding down the rise in the overall cost of living.

Price lid. One thing putting a lid on prices was the drop in the farm value of foods—about 4 percent below 1975. Most of the decline came from lower farm prices for livestock products, mainly meat. Crop-related foods tended to hold their prices better.

Considering just domestically produced farm foods bought from grocery stores, the inflation rate was only 1¼ percent last year. But consumers also eat and drink a lot of imported foods, such as coffee, tropical fruit, specialty items, and fishery products. Adding these on, the inflation rate was boosted by at least another percent.

Away-from-home eating must be taken into account, too. The growing number of meals purchased in such places as restaurants or fast-food outlets tacked nearly another percentage point onto the year's food price rise.

Bigger appetites. The slowing inflation rate, coupled with record-large food supplies and higher consumer incomes, had a direct effect at the dinner table—we ate more. In fact, last year's per capita consumption was apparently 2–3 percent more than in 1975, and about equal the 1972 record.

Last year was bountiful for many foods, particularly livestock products. Output of these products was up 5 to 6 percent over 1975, with big gains in beef, pork, broilers, turkeys, and milk. Egg production was up slightly.

Varied crop scene. The crop scene was more varied. Sugar and sweeteners were plentiful during the year, but the vegetable crop for processing was the smallest since 1972. One vegetable, though—potatoes—went from tight to abundant supply, thanks to a record fall crop. The fruit situation was mixed, with citrus production a new record, but noncitrus output moderately below 1975's. Some imported foods, and a few fishery products, also slipped some in availability.

The major field crop report for 1976 was: Wheat production at a record high; a record corn crop; and fewer soybeans.

Plenty of food. Generally, large food supplies will continue well into this year. Both livestock and crop production prospects for the first half of the year have already been determined—barring unfavorable weather—by earlier producer decisions. The last half of the year is less certain.

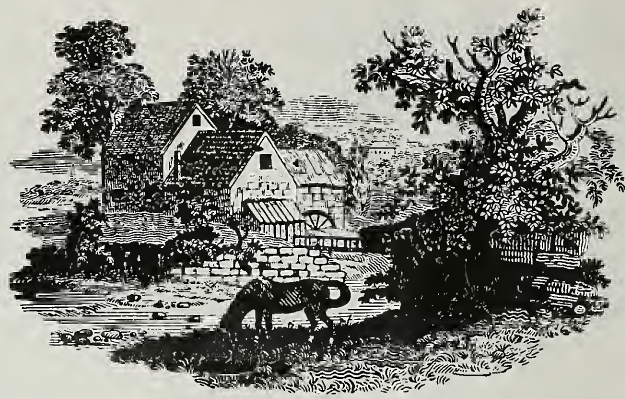
On the crop side, if demand remains strong and if prices recover a little, the year should see large plantings, particularly for soybeans. And livestock production will depend a lot on how the crop picture, mainly feed grains, shapes up.

If supplies and prices of feed are favorable—as indications show they might be—output of livestock products should remain large well into this year.

At the supermarket. At the retail level, the large food supplies should continue to put a damper on price rises at least until summer. On the other hand, increased consumer demand and climbing marketing costs will cause prices to go up some. Therefore, look for about a 3-percent hike in prices at the supermarket during the first half of the year.

[Based on the speech, "The Outlook for Food Supplies and Prices," by James R. Donald, Office of the Administrator, at the National Agricultural Outlook Conference, Washington, D.C., Nov. 15, 1976.]

Farm Inputs: Back to Normalcy



The outlook for farm inputs for 1976/77 is refreshingly unspectacular.

After fluid and sometimes drastic market situations in recent years, ERS experts expect a return to "business as usual" this year, with a good supply of inputs, steady demand, and slower price hikes.

However, even with business as usual, some uncertainties loom, which could change the outlook:

- Farm machinery prices are rising significantly.
- Fuel costs are expected to continue to increase.
- Use of some pesticides may be ordered discontinued.

The following is an examination of major input categories:

Farm machinery. The outlook in 1977 farm machinery is for a continuation of the 1976 trend of strong demand—although sales may taper toward the end of the year.

Tractor sales. Through August 1976, sales of 4-wheel-drive tractors were up 16 percent, while sales of all tractors were even with those in 1975. Manufacturers kept pace by producing more than 115,000 tractors through July—4.4 percent over a year earlier.

Prices for tractors and other self-propelled farm machinery were up 10 percent over year-earlier rates on September 15, and 38 percent higher than in 1974. Although the rate of increase has slowed, price increases remain strong.

In 1977, prices should increase only slightly less than in 1976, with a possible tapering late in the year if farm income falters. Lower interest rates on intermediate-term loans could, however, offset effects of possible lower crop prices and income.

Fuel price hikes? Predictions of fuel price increase levels are shaky because of the uncertainty in assessing OPEC price rises. The best guess is for a 5- to 10-percent price jump in 1977.

Removal of price and allocation regulations on various farm fuels also adds to some uncertainty, but it seems doubtful that diesel prices will rise more than 1 or 2 cents per gallon in early 1977.

Supplies of LP gas are up substantially, but farmers should keep LP storage facilities at capacity as a hedge against natural gas shortage and for winter needs.

Natural gas shortages may result in nearly a 30-percent curtailment, felt most sharply in the East, Southeast, and Gulf Coast areas. End users of interstate pipeline service can expect adequate supply, but at higher prices.

Pesticides. Prospects indicate sufficient supplies of agricultural pesticides for the 1977 crop season at nearly stable prices. Manufacturers are expanding production capacity to accommodate demand. Overall, manufacturers boosted total capacity by 20 percent last year. In 1977, herbicide capacity may expand another 20 percent, while insecticide capacity grows another 5 percent.

Pesticide raw materials. After serious shortages prior to 1975, supplies of raw materials for pesticide production are sound.

The major unknown factor looming over the pesticide picture is the effects of regulatory action. Bans and suspensions by the Environmental Protection Agency have altered the use of some pesticides. The EPA has already suspended production of chlordane and heptachlor for most uses, pending a later final decision.

Another possible regulatory problem is a new Congressional Act which requires certification of all private and commercial applicators, and reregistration of pesticides registered before 1972.

Application problems. Applicator certification will require farmers to become certified applicators to use restricted-use pesticides, switch to a nonrestricted alternative, or hire a certified custom applicator. Higher costs to farmers could result.

Fertilizer. The outlook is for heavy increases in fertilizer demand, but with a supply adequate to prevent price increases—perhaps even stimulate declines.

The fertilizer market has been active in recent years. Short supply and heavy demand in 1973-74 spurred high prices in 1974 and 1975. The prices stimulated production capacity expansion to result in high inventory levels and falling prices.

Overall, farmers used record amounts of fertilizer in the 1975/76 crop year, with almost 48.9 million tons consumed. Increased use seems to be continuing into the 1976/77 fertilizer year.

[Based on the paper, "Farm Input Situation and Outlook, 1976/77," by Robert D. Reinsel, National Economic Analysis Division, presented at the National Agricultural Outlook Conference, Washington, D.C., November 16, 1976.]

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Economic Trends

[1] Ratio of index of prices received by farmers to index of prices paid, interest, taxes, and farm wage rates. [2] Average annual quantities of farm food products purchased by urban wage earner and clericalworker households (including those of single workers living alone) in 1959-61—estimated monthly. [3] Annual and quarterly data are on 50-State basis. [4] Annual rates seasonally adjusted third quarter. [5] Seasonally adjusted. [6] As of March 1, 1967. [7] As of March 1, 1975. [8] As of February 1, 1976. [9] Beginning January 1972 data not strictly comparable with prior data because of adjustment to 1970 Census data.

Source: U.S. Dept. of Agriculture (Agricultural Prices, Foreign Agricultural Trade and Farm Real Estate Market Developments); U.S. Dept. of Commerce (Current Industrial Reports, Business News Reports, Monthly Retail Trade Report and Survey of Current Business): and U.S. Dept. of Labor (The Labor Force and Wholesale and Consumer Price Index).

Item	Unit or Base Period	1967	1975 Year	1975 Oct.	1976 Aug.	1976 Sept.	1976 Oct.
Prices:							
Prices received by farmers	1967=100	—	186	195	187	187	178
Crops	1967=100	—	201	203	201	204	195
Livestock and products	1967=100	—	172	189	175	172	165
Prices paid, interest, taxes and wage rates	1967=100	—	181	185	195	195	194
Family living items	1967=100	—	166	170	177	178	179
Production items	1967=100	—	182	186	198	197	195
Ratio [1]	1967=100	—	102	105	96	96	92
Wholesale prices, all commodities	1967=100	—	174.9	178.9	183.7	184.7	185.2
Industrial commodities	1967=100	—	171.5	174.7	183.6	184.7	186.3
Farm products	1967=100	—	186.7	197.3	189.3	191.8	186.6
Processed foods and feeds	1967=100	—	182.6	186.2	176.8	177.1	174.9
Consumer price index, all items	1967=100	—	161.2	164.6	171.9	172.6	173.3
Food	1967=100	—	175.4	179.0	182.4	181.6	181.6
Farm Food Market Basket: [2]							
Retail cost	1967=100	—	173.6	177.2	176.5	174.8	174.4
Farm value	1967=100	—	187.0	197.2	178.7	175.4	169.2
Farm-retail spread	1967=100	—	165.3	164.2	175.1	174.4	177.7
Farmers' share of retail cost	Percent	—	42	43	39	39	38
Farm Income: [3]							
Volume of farm marketings	1967=100	—	115	176	120	130	167
Cash receipts from farm marketings	Million dollars	42,817	89,563	11,465	7,737	8,432	10,411
Crops	Million dollars	18,434	46,661	7,052	3,786	4,498	6,288
Livestock and products	Million dollars	24,383	42,902	4,413	3,951	3,934	4,123
Realized gross income [4]	Billion dollars	49.9	98.2	—	—	104.8	—
Farm production expenses [4]	Billion dollars	38.2	75.5	—	—	81.2	—
Realized net income [4]	Billion dollars	11.7	22.7	—	—	23.6	—
Agricultural Trade:							
Agricultural exports	Million dollars	6,380	21,894	2,082	1,760	1,797	2,251
Agricultural imports	Million dollars	4,452	9,328	829	932	914	811
Land Values:							
Average value per acre	Dollars	168 [6]	354 [7]	—	—	—	403 [8]
Total value of farm real estate	Billion dollars	182 [6]	370 [7]	—	—	—	421 [8]
Gross National Product: [4]	Billion dollars	796.3	1,516.3	—	—	1,708.4	—
Consumption	Billion dollars	490.4	973.2	—	—	1,088.5	—
Investment	Billion dollars	120.8	183.7	—	—	247.0	—
Government expenditures	Billion dollars	180.2	339.0	—	—	369.6	—
Net exports	Billion dollars	4.9	20.5	—	—	3.4	—
Income and Spending: [5]							
Personal income, annual rate	Billion dollars	626.6	1,249.7	1,290.8	1,385.5	1,391.7	1,401.9
Total retail sales, monthly rate	Million dollars	26,151	48,702	49,995	54,643	53,918	54,062
Retail sales of food group, monthly rate	Million dollars	5,759	10,977	11,149	11,805	11,751	11,817
Employment and Wages: [5]							
Total civilian employment	Millions	74.4	84.8	85.2	88.0	87.8	87.8
Agricultural	Millions	3.8	3.4	3.4	3.4	3.3	3.3
Rate of unemployment	Percent	3.8	8.5	8.6	7.9	7.8	7.9
Workweek in manufacturing	Hours	40.6	39.4	39.8	40.0	39.7	39.8
Hourly earnings in manufacturing, unadjusted	Dollars	2.83	4.81	4.90	5.21	5.30	5.29
Industrial Production: [5]	1967=100	—	117.8	122.2	131.3	131.0	130.4
Manufacturers' Shipments and Inventories: [5]							
Total shipments, monthly rate	Million dollars	46,449	82,724	87,403	94,524	93,641	—
Total inventories, book value end of month	Million dollars	84,655	146,574	146,510	152,773	154,129	—
Total new orders, monthly rate	Million dollars	46,763	81,351	86,336	94,143	93,460	—

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